MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Swiss Re's Aa3 IFS and senior debt ratings; outlook stable

Global Credit Research - 19 Dec 2017

London, 19 December 2017 -- Moody's Investors Service ("Moody's") has affirmed the Aa3 Insurance Financial Strength (IFS) and senior debt ratings of Swiss Reinsurance Company Ltd (SRZ). In the same action, Moody's has affirmed the Aa3 IFS and A2(hyb) subordinated debt ratings of Swiss Re Corporate Solutions Ltd (SRCS), and the Aa3 IFS ratings of Swiss Re Life & Health America Inc. (SRLHA) and Swiss Reinsurance America Corporation (SRAC). The outlook is stable.

SRZ is the lead reinsurer of Swiss Re Ltd. ("Swiss Re", or "the Group"), one of the leading global reinsurance groups.

A complete list of the ratings impacted by this action is included at the end of this document.

RATINGS RATIONALE

SWISS RE

The Aa3 IFS rating of SRZ, Swiss Re's lead reinsurance entity, reflects its excellent market position and extensive diversification by geography and line of business, very strong capital adequacy and good reserve adequacy. These strengths are partially offset by the challenges of a difficult trading environment and the inherent volatility of its catastrophe exposed business.

Moody's stated that Swiss Re's market position is very strong, supported by a leading franchise and its position as one of the leading global reinsurers, with a leading presence in most life and non-life reinsurance markets globally. Swiss Re's very strong franchise increasingly enables it to achieve differentiated terms or pricing in many reinsurance transactions, particularly large structured transactions that are a growing share of its new business.

Swiss Re's business is very well diversified, with very strong geographic and product diversification across both life and non-life reinsurance as well as a strengthening presence in primary insurance. In addition, the Group also participates in the insurance-linked securities market, whereby it is able to offer its clients risk-transfer solutions that include alternative capital. Extensive diversification helps offset some of the earnings pressure created by the P&C reinsurance pricing cycle.

The rating agency added that Swiss Re's capital adequacy remains very strong, both in absolute terms and compared to peers. The Group's regulatory and economic capital ratio under the Swiss Solvency Test (SST) was 262% at year-end 2016, and well above its target level of 220%. That said, Moody's expects the Group's SST coverage to drift down slightly, as the Group continues its dividend payments and $1 billion share buyback program despite significantly lower full-year profitability expected as a result of the Q3 catastrophe losses. The Group's capital adequacy is bolstered by approximately $2.7 billion in pre-funded facilities, that are convertible into subordinated debt at the Group's option, with a coupon deferral available after conversion. While this amount is not material in the context of the Group's current capital levels, it strengthens the Group's financial flexibility and could become a material source of capital in a stress event.

Reserve adequacy is good across both Life and P&C segments, with Swiss Re reporting strong GAAP margins on its Life reserves and consistent reserve releases on its P&C reserves. Moody's noted that it expects reserve releases to continue, albeit at a reduced rate due to change in business mix and softer pricing in recent years. However, the increase in the Group's exposure to casualty business, which comprised approximately 24% of its 2016 premiums earned, up from approximately 18% in 2011, increases the level of reserve risk due to the longer-tail nature of casualty business.

The Group's profitability is strong, although it experienced significant underwriting losses in the third quarter of this year as a result of severe natural catastrophes. Despite catastrophe losses of approximately $3.6 billion (net of retrocession) in the third-quarter, the Group reported a net loss of $468 million for the first nine months of 2017. For the full-year, Moody's expects the Group to report a modest net income, absent additional large losses, including the possibility of higher than expected losses from the California wildfires that have occurred during the fourth quarter.

Looking ahead, we expect Swiss Re, and its peers, to benefit from price increases for reinsurance, particularly on US and Caribbean wind exposure. However, we expect price hardening to be dampened by the availability of alternative capital in the market, and for profitability to remain firmly below pre-2013 levels.

SWISS RE CORPORATE SOLUTIONS LTD (SRCS)

SRCS' Aa3 IFS rating reflects its A2 standalone profile and two notches of support from the Group. Moody's noted that SRCS' standalone profile reflects its strong market position in the large commercial excess layers market and entry into the primary lead market, well diversified global P&C commercial lines portfolio along with its good capital adequacy and conservative investment portfolio. These strengths are partially offset by the challenge of sustaining profitable growth in a challenging operating environment, the underwriting volatility and cyclicality inherent in a number of its commercial insurance business lines, and relatively high gross and net natural catastrophe exposure.

SRCS sustained very severe natural catastrophe losses -- approximately $975 million - during the third quarter of 2017, which drove the combined ratio up to 142.6% and resulted in an overall net loss of $762 million for the first nine months of 2017. As a result, Swiss Re had to inject $1 billion of fresh equity capital into the company to restore its capital levels, in line with its SST 160% target. SRCS' large exposure to US property risk, along with its focus on excess layer primary insurance and high net retention levels contributed to the significant loss.

In the near term, we expect SRCS to benefit from price hardening that is widely expected by the market. However, we expect its profitability to remain relatively volatile until it is able to grow its presence in the primary lead market and thereby diversify away from its excess-layer business, which tends to be somewhat low-frequency and high-severity in nature. In addition, SRCS' steady investment in building out its primary lead capabilities continues to suppress profitability, costing it between 3% and 4% points on the combined ratio each year, a trend that we expect will continue until the company reaches the appropriate scale.

SWISS RE LIFE AND HEALTH AMERICA INC. (SRLHA)

SRLHA's Aa3 IFS rating reflects its A2 standalone profile and two notches of support from the Group. Moody's noted that SRLHA's standalone profile reflects its strong business and financial profiles. The company's business profile is defined by its strong market presence in U.S. life and health reinsurance as well as a large and diversified book of business. To offset slow growth in the traditional mortality business, Swiss Re is investing in other, non-mortality related product lines. The company's strong financial profile is supported by good asset quality, but partially offset by its modest level of stand-alone capital, as the Group manages and holds excess capital centrally.

SWISS RE AMERICAS CORPORATION (SRAC)

SRAC's Aa3 IFS rating reflects its A2 standalone profile and two notches of support from the Group. Moody's noted that SRAC's' standalone credit profile reflects its strong competitive position in the North American and Latin American P&C reinsurance markets, high quality investment portfolio and strong profitability in recent years. These strengths are tempered by the cyclical nature and the price competitiveness of the reinsurance industry, a modest level of capital as the Group manages and holds excess capital centrally, and SRAC's significant dependence on reinsurance protection from SRZ. The reinsurance protections demonstrate explicit support from the Group.

WHAT COULD PLACE UPWARD/ DOWNWARD PRESSURE ON THE RATING

Moody's noted that the following factors could place upward pressure on SRZ's IFS rating: (i) sustained strong core earnings with return on capital above 12% over the underwriting cycle, (ii) financial and total leverage consistently below 20%, with earnings coverage over 10x through the cycle, (iii) enhanced capital adequacy including gross underwriting leverage sustainably below 2.5x over the cycle, and (iv) material improvement in the business environment, including P&C reinsurance pricing and interest rates.

Conversely, the following factors could place downward pressure on SRZ's ratings: (i) sustained deterioration in financial flexibility, including financial leverage above 25% and earnings coverage below 6x, (ii) average return on capital below 6% on a through-the-cycle basis , (iii) material erosion of asset quality, (iv) meaningful and sustained adverse reserve development, and (v) reduction in shareholders' equity of greater than 10% over a rolling 12 month period due to catastrophe losses or poor operating results.

With respect to subsidiary ratings, Moody's added that because their IFS ratings benefited from meaningful support from the Group, upward or downward pressure on the ratings of SRCS, SRAC and SRLHA would primarily be the result of upward or downward pressure, respectively, on SRZ and the Group's IFS ratings, as well as any reduction in Moody's assessment of support from the Group.

The following ratings were affirmed

Swiss Reinsurance Company Ltd

Insurance Financial Strength, at Aa3

Senior unsecured debt, at Aa3

Subordinated debt, at A2(hyb)

Senior unsecured MTN program, at (P)Aa3

Subordinated MTN program, at (P)A2

Other Short Term, at (P)P-1

Swiss Re Corporate Solutions Ltd

Insurance Financial Strength, at Aa3

Subordinated debt rating, at A2(hyb)

Westport Insurance Corporation

Insurance Financial Strength, at Aa3

Swiss Re International SE

Insurance Financial Strength, at Aa3

Swiss Re Solutions Holding Corporation

Senior unsecured debt, at A2

Swiss Reinsurance America Corporation

Insurance Financial Strength, at Aa3

Swiss Re Life & Health America Inc.

Insurance Financial Strength, at Aa3

Swiss Re Financial Products Corporation

Long-term issuer, at Aa3

Swiss Re Treasury (US) Corporation

Backed senior unsecured debt, at Aa3

Backed senior unsecured MTN program, at (P)Aa3

Backed subordinated MTN program, at (P)A2

Backed Other Short Term, at (P)P-1

Swiss Re Asia Ltd

Insurance financial strength, at Aa3

Swiss Re Europe SA

Insurance Financial Strength, at Aa3

Swiss Re Finance (Luxembourg) S.A.

Backed senior unsecured MTN program, at (P)Aa3

Backed subordinated MTN program, at (P)A2

Backed Other Short Term, at (P)P-1

Elm B.V.

Junior subordinated rating A3(hyb)

The outlook for all entities is stable

PRINCIPAL METHODOLOGY

The principal methodology used in rating Swiss Reinsurance Company Ltd, Swiss Re Asia Ltd, Swiss Re Europe SA, Swiss Re Finance (Luxembourg) S.A., ELM B.V., Swiss Re Life & Health America Inc., Swiss Reinsurance America Corporation, Swiss Re Financial Products Corporation, Swiss Re Solutions Holding Corporation and Swiss Re Treasury (US) Corporation was Global Reinsurers published in September 2017. The principal methodology used in rating Westport Insurance Corporation, Swiss Re International SE and Swiss Re Corporate Solutions Ltd was Global Property and Casualty Insurers published in May 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at www.moodys.com, for each of the ratings covered, Moody's disclosures on the lead rating analyst and the Moody's legal entity that has issued the ratings.

The person who approved Swiss Reinsurance Company Ltd, Swiss Re Corporate Solutions Ltd, Swiss Re International SE, Westport Insurance Corporation, Swiss Re Asia Ltd, Swiss Re Europe SA, Swiss Re Finance (Luxembourg) S.A. and ELM B.V. credit ratings is Antonello Aquino, Associate Managing Director, Financial Institutions Group, JOURNALISTS: 44 20 7772 5456, Client Service: 44 20 7772 5454. The person who approved Swiss Re Life & Health America Inc., Swiss Reinsurance America Corporation, Swiss Re Financial Products Corporation, Swiss Re Solutions Holding Corporation and Swiss Re Treasury (US) Corporation credit ratings is Marc R. Pinto, CFA, MD - Financial Institutions, Financial Institutions Group, JOURNALISTS: 212-553-0376, SUBSCRIBERS: 212-553-1653.

The relevant office for each credit rating is identified in "Debt/deal box" on the Ratings tab in the Debt/Deal List section of each issuer/entity page of the website.

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